COMMONWEALTH OF VIRGINIA
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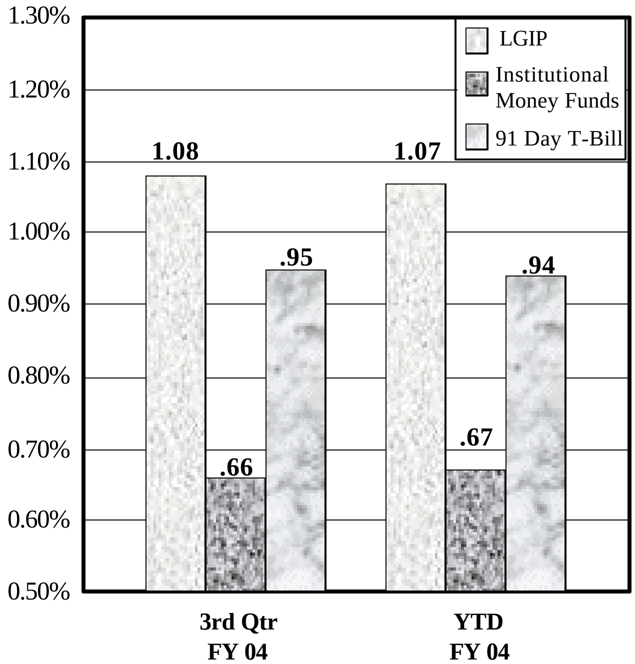
Participant Newsletter March 31, 2004

Yield Comparison



Investment Guidelines Compliance (3-31-04):

•Diversification:	Actual	Max.
U. S. Treasury/Agency	30%	100%
Repurchase Agreements	13%	50%
Negotiable CDs & BAs	24%	40%
Non-Negotiable CDs	2%	25%
Commercial Paper	14%	35%
Corporate & Bank Notes	17%	25%

•Maturity Limitations:	
Average Days to Maturity	65 days
Average Maturity May Not Exceed	90 days

Monthly Statistics:

- Avg NAV: $2,252,407,000
- Active Accounts: 842
- Simple Yield: 1.08%
- Effective Yield: 1.09%

Quarterly Performance:

•Average Yield:	3rd Qtr FY 04	YTD FY 04
LGIP	1.08%	1.07%
Institutional Money Funds*	0.66%	0.67%
91 Day T-Bill	0.95%	0.94%

*Consist of 615 institutionl money market funds totaling $929.5 billion as reported by IBC/Donoghue as of 3-31-2004.

News of Interest:

Interest rates steadily declined throughout the past quarter. However, the landscape abruptly changed on April 2 with the release of the Department of Labor's employment report for March. Non-farm payrolls rose a much stronger than expected 308,000, the largest increase since April 2000, and both the January and February reports were revised upward. Gains were generally broad-based, but benefited specifically from bounce backs in retail and construction, after strike and weather related declines. After four consecutive months of payrolls coming in significantly below consensus forecasts, this was a very well received report. The importance of this report is even more significant when one considers that weak job growth has been the sole focus of Fed policy.

The important question is what will be the trend for payrolls going forward and will the growth be enough to bring the Fed off the sidelines? The best way to look at payroll trends is to use a three-month moving average, which is currently 171,000 job gains per month. The Fed wants to see job growth fast enough to employ new workers entering the labor force and close the accumulated shortfall of jobs over the last three years. Lehman Brothers research provides the following rules of thumb. If job growth continues at the 300,000 monthly pace, the Fed will tighten this summer. If payrolls average 200,000, the Fed will tighten in the fourth quarter. And, if payrolls average below 200,000, the Fed is on hold until some time in 2005.

While the March payroll report initially garnered the headlines, other March economic reports are pointing in the same direction. Both the manufacturing and the non-manufacturing ISM reports for March were positive. Manufacturing ISM showed across the board strength in new orders, production, employment and order backlogs. Commodity prices pushed the prices paid portion of the index to its highest level since January 1995.

March retail sales continued the trend of stronger than expected economic numbers rising 1.8%, more than double the consensus forecast of 0.7%. This increase, plus upward revisions for the previous two months, lead economists to raise their GDP forecasts for both the first and second quarter.

CPI was the next surprise. It came in at 0.5% versus expectations of 0.3%. Of greater concern to the market was the 0.4% increase in the core rate versus expectations of 0.2%. The core prices, which exclude food and energy, showed broad based increases including lodging, medical costs and apparel. This string of robust economic releases prompted some economists to re-evaluate the timing of the beginning of the Fed tightening cycle moving the first tightening into 2004 from 2005, possibly even the 3rd quarter of 2004.

Although yields trended lower throughout the quarter, they have significantly increased since the early April economic releases. According to a weekly poll of clients by J. P. Morgan Chase & Co., bond investors are the most bearish since 1992. With the possibility that market sentiment may be changing and the extremely low level of interest rates, especially in the short and intermediate sectors of the yield curve, one can probably not be too cautious in this environment.

The LGIP portfolio yield has basically treaded water for the entire fiscal year to date at the 1.07% /1.08% level. In an environment where interest rates are at 45-year lows, we have increased our allocation to floating rate securities to take advantage of higher yields when they do occur. Approximately 30% of the LGIP portfolio is now invested in floating rate securities. Callable agency securities have been the other primary category of investment. For the past several years issuers have exercised their call options resulting in callable securities being called away from the investor, but with the recent rise in interest rates this scenario is not likely to continue. At the moment it appears the LGIP yield has bottomed out for this cycle and should be gradually increasing, but will not change substantially until the Fed raises the federal funds rate.